

Audit Report



INTERAGENCY TRANSFER RECONCILIATIONS AT
DEFENSE FINANCE AND ACCOUNTING SERVICE
COLUMBUS CENTER DISBURSING STATIONS

Report Number 99-226

July 28, 1999

Office of the Inspector General
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Acronyms

DFAS
OPAC

Defense Finance and Accounting Service
On-Line Payment and Collection System



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DEPARTMENT OF DEFENSE
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July 28, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Interagency Transfer Reconciliations at Defense Finance
and Accounting Service Columbus Center Disbursing Stations
(Report No. 99-226)

We are providing this report for information and use. This is the second in a series of reports on reconciliations made by disbursing stations for the Fund Balance With Treasury account. We conducted the audit in support of our annual audits of the Fund Balance With Treasury account and the FY 1998 DoD Agency-Wide financial statements, as required by the Chief Financial Officers Act of 1990, the Federal Financial Management Act of 1994, and the Federal Financial Management Improvement Act of 1996. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report met the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson at (703) 604-9582 (DSN 664-9582) (crichardson@dodig.osd.mil) or Mr. Robert E. Benefiel, Jr., at (703) 604-9515 (DSN 664-9515) (rbenefiel@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-226
(Project No. 8FA-2021.01)

July 28, 1999

Interagency Transfer Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations

Executive Summary

Introduction. This audit is one in a series of audits on the Fund Balance With Treasury account (an asset account) performed in response to Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, and Public Law 104-208, the "Federal Financial Management Improvement Act of 1996," September 30, 1996. The report discusses reconciliations that DoD disbursing stations should conduct to accurately report interagency transfers affecting the Fund Balance With Treasury account. A subsequent report will discuss reconciliations that DoD disbursing stations should conduct to accurately report checks issued. Reconciling the Fund Balance With Treasury account is a DoD implementation strategy for auditable financial statements.

We reviewed four disbursing stations that provided data for the Fund Balance With Treasury account on the FY 1998 DoD Agency-Wide financial statements. All four disbursing stations were located at the Defense Finance and Accounting Service Columbus Center, Columbus, Ohio. During FY 1998, the four disbursing stations reported net interagency transfers to the U.S. Treasury totaling a negative \$473.2 million, which represented a net value of \$1,828.4 million in disbursements and \$2,301.6 million in collections. The U.S. Treasury recorded the disbursement and collection data and maintained the Fund Balance With Treasury accounts for DoD appropriations. The FY 1998 DoD Agency-Wide financial statements reported total assets of \$591.2 billion as of September 30, 1998, including \$167.5 billion in the Fund Balance With Treasury account.

Objectives. The audit objective was to assess controls over disbursing and collection activities and monthly reporting to the U.S. Treasury. This report focused on the objective as it applied to interagency transfers. We also reviewed the adequacy of the management control program as it applied to the audit objective.

Results. Disbursing stations 6355 and 6551 did not adequately reconcile interagency transfer differences reported by the U.S. Treasury each month on the Statement of Differences. As of September 30, 1998, the two disbursing stations had accumulated unreconciled interagency transfer differences of \$14.9 million (absolute value of \$92.5 million) for FY 1998. For FY 1998, interagency transfer differences for the two disbursing stations amounted to 39.4 percent of the total differences for disbursing

stations that reported Fund Balance With Treasury data to the Defense Finance and Accounting Service Indianapolis Center, Indianapolis, Indiana. The unreconciled differences contributed to the inaccuracy of the DoD Fund Balance With Treasury account.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 5, “Disbursing Policy and Procedures,” May 9, 1996, to establish complete procedures for reconciling interagency transfer differences. We recommend that the Director, Defense Finance and Accounting Service, develop an automated database for the Defense Finance and Accounting Service centers to use in tracking interagency transfer differences; develop a standard format for the centers to use in reporting the differences; and require the centers to provide quarterly reports on differences to the Defense Finance and Accounting Service headquarters for management action. We recommend that the Director, Defense Finance and Accounting Service Columbus Center, improve training for personnel at disbursing stations 6355 and 6551 in reconciling interagency transfer differences.

Management Comments. The Under Secretary of Defense (Comptroller) concurred with the recommendation and stated that DoD Regulation 7000.14-R, volume 5, will be revised to establish complete procedures for reconciling interagency transfer differences. The Defense Finance and Accounting Service concurred with the recommendations and will require the Defense Finance and Accounting Service centers to develop systems to track interagency transfer differences; develop a standard format for the centers to report the differences; require the centers to provide monthly reports of the status and amount of differences to Defense Finance and Accounting Service headquarters; and train personnel at disbursing stations 6355 and 6551 in using the Statement of Accountability to correct differences reported on the Statement of Differences. A discussion of management comments is in the Finding section of the report, and the text of the comments is in the Management Comments section of the report.

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Introduction

This audit was conducted in support of the FY 1998 DoD Agency-Wide financial statements, as required by Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, and Public Law 104-208, the "Federal Financial Management Improvement Act of 1996," September 30, 1996. This report discusses reconciliations that DoD disbursing stations should conduct to accurately report interagency transfers in the Fund Balance With Treasury account (an asset account).¹ Our Audit Report No. 99-211, "Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 9, 1999, discussed reconciliations that disbursing stations should conduct to accurately report deposits. A subsequent report will discuss reconciliations that DoD disbursing stations should conduct to accurately report checks issued.

DoD Implementation Strategy for Auditable Financial Statements. DoD developed the implementation strategy for auditable financial statements, in coordination with the Office of Management and Budget and the General Accounting Office, to obtain a favorable audit opinion on the DoD Agency-Wide financial statements. On November 19, 1998, the Principal Deputy Under Secretary of Defense (Comptroller) forwarded the implementation strategy to the DoD Components for implementation. Reconciling the Fund Balance With Treasury account is one of several goals of the implementation strategy.

Background

We reviewed four disbursing stations that provided data for the Fund Balance With Treasury account on the FY 1998 DoD Agency-Wide financial statements. The four stations, disbursing station symbol numbers 6355, 6551, 8558, and 8565, were located at the Defense Finance and Accounting Service (DFAS) Columbus Center, Columbus, Ohio. During FY 1998, the four disbursing stations made net interagency transfers totaling a negative \$473.2 million, which represented a net value of \$1,828.4 million in disbursements and \$2,301.6 million in collections. The U.S. Treasury recorded the disbursement and collection data in the Fund Balance With Treasury accounts based on the activity reported by DoD. The FY 1998 DoD Agency-Wide financial statements reported total assets of \$591.2 billion as of September 30, 1998, including \$167.5 billion in the Fund Balance With Treasury account.

¹ A Federal entity's Fund Balance With Treasury account is the aggregate amount of funds in the entity's accounts with the U.S. Treasury to and from which the entity is authorized to make deposits and disbursements.

Statement of Accountability. DoD disbursements and collections are processed at approximately 969 disbursing stations at locations worldwide. These disbursing stations are authorized to prepare U.S. Treasury checks, to initiate interagency transfers, and to make deposits to U.S. Treasury accounts. Each disbursing station is required to prepare a monthly SF 1219, "Statement of Accountability," which reports information to the U.S. Treasury on deposits, checks issued, and interagency transfers. Within DoD, Statements of Accountability are combined at three DFAS centers: the DFAS Denver Center, Denver, Colorado; the DFAS Cleveland Center, Cleveland, Ohio; and the DFAS Indianapolis Center, Indianapolis, Indiana. Each DFAS center electronically submits a combined Statement of Accountability to the U.S. Treasury using the Government On-Line Accounting Link System, a Federal financial telecommunications network. Disbursing stations 6355 and 6551 submit their information for the Statement of Accountability to the DFAS Indianapolis Center, and disbursing stations 8558 and 8565 submit their information to the DFAS Cleveland Center.

Statement of Transactions and the Fund Balance With Treasury Account. Disbursing stations also prepare a monthly SF 1220, "Statement of Transactions," which reports disbursements and collections for each appropriation. The Statements of Transactions are combined at the DFAS centers and submitted to the U.S. Treasury. The U.S. Treasury records the disbursement and collection data from the Statement of Transactions in the Fund Balance With Treasury account maintained for each appropriation in the Standard Treasury Accounting and Reporting System. Each month, the U.S. Treasury reports the outstanding balance in the Fund Balance With Treasury account to each Government agency on Financial Management Service Form 6653, "Undisbursed Appropriation Account Ledger." The U.S. Treasury sends the Undisbursed Appropriation Account Ledger to each agency on microfiche and through the Government On-Line Accounting Link System.

Reconciliations. The implementation strategy for the Fund Balance With Treasury account requires the Director, DFAS, to document the procedures used to reconcile the DoD Fund Balance With Treasury account records with those of the U.S. Treasury. Disbursing stations conduct monthly reconciliations between the Statement of Accountability and the Statement of Transactions, and should also reconcile discrepancies in checks issued and differences in deposits and interagency transfers. Interagency transfer differences represent differences between interagency transfers reported on the Statement of Accountability and interagency transfers reported through the On-Line Payment and Collection (OPAC) system² each month.

Disbursing stations also provide the information that the DFAS centers need to conduct two other major reconciliations each month for their disbursing stations. The reconciliations compare the Statement of Accountability to the Statement of

²The OPAC system is an automated application available to Federal agencies through the Government On-line Accounting Link System. The OPAC system is used for interagency financial transactions such as transferring funds to support interagency projects and transferring withholding for taxes and retirement to the Internal Revenue Service and the Office of Personnel Management, respectively.

Transactions, and the Statement of Transactions to the Fund Balance With Treasury account reported on the Undisbursed Appropriation Account Ledger. The DFAS Centers also reconcile the Fund Balance With Treasury account reported on the Undisbursed Appropriation Account Ledger to budgetary data on the SF 133, "Report on Budget Execution." See Appendix B for a discussion of processing and reporting interagency transfers.

Objectives

The audit objective was to assess controls over disbursing and collection activities and monthly reporting to the U.S. Treasury. This report focused on the objective as it applied to interagency transfers. We also reviewed the adequacy of the management control program as it applied to the audit objective. Appendix A discusses the audit scope and methodology and the review of the management control program and lists prior audits related to the objectives.

Reconciliation of Interagency Transfers

Disbursing stations 6355 and 6551 did not adequately reconcile interagency transfer differences reported by the U.S. Treasury each month on Financial Management Service Form 6652, "Statement of Differences, Disbursing Office Transactions" (Statement of Differences). As of September 30, 1998, the two disbursing stations had accumulated unreconciled interagency transfer differences of \$14.9 million (absolute value of \$92.5 million) for FY 1998. For FY 1998, interagency transfer differences for the two disbursing stations amounted to 39.4 percent of the differences for disbursing stations that reported Fund Balance With Treasury data to the DFAS Indianapolis Center. This occurred because the DFAS Columbus Center Disbursing Directorate did not adequately train disbursing station personnel in reconciling interagency transfer differences. In addition, specific guidance was lacking in DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," May 9, 1996.

- Disbursing stations were not required to review interagency transfer differences reported on the Statement of Differences each month to verify whether corrections reported on the Statement of Accountability eliminated interagency transfer differences from the Statement of Differences.
- DFAS centers and disbursing stations were not required to systematically track³ interagency transfer differences reported on the Statement of Differences each month.

As a result, the unreconciled differences contributed to the inaccuracy of the DoD Fund Balance With Treasury account. Further, the U.S. Treasury will continue to report interagency transfer differences for reconciliation each month until complete reconciliation procedures are developed and the differences are fully reconciled (reduced to zero).

Reconciliation Procedures for Interagency Transfer Differences

The U.S. Treasury reports interagency transfer differences to disbursing stations monthly through the DFAS centers on the Statement of Differences. The U.S. Treasury sends the Statements of Differences each month until there are no differences to report.

³Tracking refers to the act of tracing a difference from discovery through resolution. Tracking includes recording the initial difference and all subsequent adjustment or changes over time until the difference is reduced to zero.

The U.S. Treasury identifies differences by comparing total interagency transfers reported monthly on the Statement of Accountability with control totals derived from OPAC system data in the Standard Treasury Accounting and Reporting System. The Statement of Differences reports the total difference between total interagency transfers reported on the Statement of Accountability and total interagency transfers reported through the OPAC system.

The DoD implementation strategy for the Fund Balance With Treasury account requires the Director, DFAS, to direct disbursing officers to comply with existing guidance and to institute controls over the reconciliation process. DoD Regulation 7000.14-R, volume 5, requires disbursing stations to reconcile interagency transfer differences reported each month by the U.S. Treasury on the Statement of Differences. Based on our review of the reconciliation process, the reconciliation should:

- identify interagency transfer differences and correct automated records,
- correct interagency transfer differences on the Statement of Accountability,
- verify whether the corrections reported on the Statement of Accountability have eliminated interagency transfer differences from the Statement of Differences, and
- track interagency transfer differences reported on the Statement of Differences each month to determine the progress made in reconciling interagency transfer differences.

Reconciling Interagency Transfer Differences

Disbursing stations 8558 and 8565 adequately reconciled interagency transfer differences. However, disbursing stations 6355 and 6551 did not adequately reconcile the differences. Specifically, the two disbursing stations did not adequately correct differences on the Statement of Accountability; verify whether the corrections reported on the Statement of Accountability had eliminated differences from the Statement of Differences; or track differences reported on the Statement of Differences.

Identifying Interagency Transfer Differences and Correcting Automated Records

The "Treasury Financial Manual," volume I, part 2, chapter 3100, "Instructions for Disbursing Officers' Reports," February 6, 1997, requires disbursing stations to identify and correct interagency transfer differences. These

differences represent interagency transfers recorded in the OPAC system but not in automated disbursing station records, and interagency transfers recorded in automated disbursing station records but not in the OPAC system. To identify interagency transfers recorded in the OPAC system, the U.S. Treasury provides each disbursing station with a Statement of Differences accompanied by a "Monthly Register of Transactions" (monthly register). The monthly register details all interagency transfers reported in that month through the OPAC system for the disbursing station.

To expedite the identification and recording of interagency transfers, DFAS Columbus Center disbursing stations use daily and monthly interagency transfer data available on-line through the OPAC system instead of waiting 4 to 6 weeks to receive a hard copy of the Statement of Differences and the monthly register.

Correcting Interagency Transfer Differences on the Statement of Accountability

DoD Regulation 7000.14-R, volume 5, requires disbursing stations to correct interagency transfer differences on subsequent months' Statements of Accountability. Disbursing stations 6551 and 6355 did not properly use Statements of Accountability to correct differences reported for previous months. Because employees did not receive adequate training, the disbursing stations did not properly report corrections on subsequent Statements of Accountability and did not transmit corrections shown on the Statements of Accountability to the DFAS Indianapolis Center.

Reporting Corrections. Using the month of February 1998 as an example, disbursing station 6551 did not properly use the February 1998 Statement of Accountability to correct interagency transfer differences of \$53,758 reported for December 1997. Specifically, disbursing station 6551 did not properly report a \$46,571 disbursement for December 1997. The disbursing station incorrectly reported the disbursement as a collection on the February 1998 Statement of Accountability. As a result, the disbursing station increased the December 1997 interagency transfer difference from \$53,758 to \$100,328 on the February 1998 Statement of Differences. The disbursing station did not discover the error, and the resulting increase in interagency transfer differences for December 1997, because employees did not review the Statement of Differences each month.

Transmitting Corrections. Disbursing station 6355 did not properly use the January 1998 Statement of Accountability to correct interagency transfer differences of \$699,140 reported for December 1997. The interagency transfer difference occurred because disbursing station 6355 reported a January 1998 disbursement in December 1997. Therefore, disbursing station 6355 needed to reduce the December 1997 disbursements by \$699,140. Although the disbursing station properly identified the correction on the January 1998 Statement of Accountability, the \$699,140 correction was not transmitted to the

DFAS Indianapolis Center. As a result, the disbursing station did not correct the December 1997 interagency transfer difference of \$699,140. The disbursing station did not discover the error because employees did not review the Statement of Differences each month.

Training Needed. Errors in reporting and transmitting corrections occurred because the DFAS Columbus Center Disbursing Directorate did not adequately train disbursing station personnel in reconciling interagency transfer differences, including reporting corrections on subsequent Statements of Accountability and transmitting corrections shown on the Statement of Accountability to the DFAS Indianapolis Center. Part of the reconciliation was conducted in the DFAS Columbus Center's Office of the OPAC Manager for Disbursing Systems, and disbursing station personnel did not fully understand how to use the results in correcting differences on the Statement of Accountability.

Verifying Corrections Reported on the Statement of Accountability

Disbursing stations should review interagency transfer differences reported on the Statement of Differences each month to verify whether corrections reported on the Statement of Accountability eliminated the differences reported on previous Statements of Differences and whether additional corrective actions are needed.

As illustrated by the examples from December 1997 and January and February 1998, disbursing stations 6551 and 6355 did not review the Statement of Differences each month and were not aware that interagency transfer differences remained uncorrected. If DoD Regulation 7000.14-R, volume 5, had required disbursing stations to fully reconcile disbursing activity reported to the U.S. Treasury, the disbursing stations could have reconciled the interagency transfer differences. Specifically, DoD Regulation 7000.14-R did not require disbursing officers to review differences reported on the Statement of Differences each month to verify whether corrections reported on the Statement of Accountability had eliminated differences from the Statement of Differences. The U.S. Treasury will continue to report differences for reconciliation each month until the disbursing stations use the Statement of Differences to verify corrections.

Management Actions. As a result of our review, the OPAC Manager at DFAS Columbus Center began reviewing the Statements of Differences for disbursing stations 6355 and 6551, and reported adjustments on the Statement of Accountability for December 1998.

Tracking Interagency Transfer Differences

The U.S. Treasury issued Treasury Financial Management Bulletin 98-07 (Bulletin 98-07), "Discontinuance of Chargeback Process," April 2, 1998, to revise the "Treasury Financial Manual," volume I, part 2, "Central Accounting and Reporting," February 1997. Before Bulletin 98-07 was issued, the U.S. Treasury reported interagency transfer differences on the Statement of Differences for 6 months and then transferred individual differences of less than \$5.0 million to temporary holding accounts for reconciliation by disbursing stations.

However, many disbursing stations did not completely reconcile the differences in the temporary holding accounts. Therefore, the U.S. Treasury issued Bulletin 98-07 to stop the transfer of differences to temporary holding accounts and to notify agencies that they would continue to receive the Statement of Differences every month until the differences were completely resolved. This action was taken to ensure that agency disbursing stations tracked and reconciled the differences reported on the Statement of Differences each month.

As required by Bulletin 98-07, disbursing stations now receive a separate Statement of Differences for every month with an uncorrected difference. For example, if 15 previous months had uncorrected differences, the disbursing station would receive 15 separate Statements of Differences as of the month's end, one statement for each month with an uncorrected difference.

Tracking Interagency Transfer Differences at Disbursing Stations 6355 and 6551. Disbursing stations 6355 and 6551 did not systematically track interagency transfer differences reported by the U.S. Treasury on the Statements of Differences each month. If DoD Regulation 7000.14-R, volume 5, had required disbursing stations to systematically track differences reported on the Statement of Differences each month, the disbursing stations could have tracked the interagency transfer differences and performed the additional reconciliations needed.

As a result, none of the differences initially reported for either disbursing station were completely reconciled during the fiscal year. The tables in Appendix C identify the differences applicable to disbursing stations 6355 and 6551 that were initially reported for each month during FY 1998 and the differences that were not reconciled for each month as of the end of FY 1998.

As of September 30, 1998, disbursing stations 6355 and 6551 had accumulated net unreconciled differences of \$14.9 million (absolute value of \$92.5 million) for FY 1998. The two disbursing stations' FY 1998 differences accounted for 39.4 percent of the \$234.9 million (absolute value) of FY 1998 differences applicable to the disbursing stations that reported their Fund Balance With Treasury data to the DFAS Indianapolis Center.

Tracking Interagency Transfer Differences at DFAS Indianapolis Center. The DFAS centers should track interagency transfer differences reported on the Statement of Differences to determine their disbursing stations' progress in

reconciling differences each month. The U.S. Treasury provides the DFAS centers with a copy of the Statement of Differences for their disbursing stations through the Government On-Line Accounting Link System. The DFAS centers could use the Statement of Differences to track the disbursing stations' progress in reconciling differences each month.

The DFAS Indianapolis Center did not use the Statement of Differences that it received from the U.S. Treasury to track the differences for disbursing stations 6355 and 6551. If DoD Regulation 7000.14-R, volume 5, had required the DFAS Centers to systematically track differences reported on the Statement of Differences each month, the DFAS Indianapolis Center could have used the Statement of Differences to track differences.

The DoD Fund Balance With Treasury Working Group⁴ obtained an automated file from the U.S. Treasury for all DoD disbursing stations and analyzed the data. The working group determined that as of September 30, 1998, DoD disbursing stations were accountable for reconciling interagency transfer differences totaling a net \$111.0 million (absolute value of \$615.8 million) for FYs 1996 through 1998.⁵ The DFAS centers could obtain an automated file of data from the U.S. Treasury to track their disbursing stations' progress in reconciling differences each month.

DoD interagency transfer differences may increase in future fiscal years because of the rapid growth in the use of the OPAC system for interagency transfers. For example, the number of monthly interagency transfers processed by disbursing stations 6355 and 6551 increased about 300 percent and 500 percent, respectively, from October 1997 to September 1998.

Conclusion. Unreconciled differences contributed to the inaccuracy of the DoD Fund Balance With Treasury account. The U.S. Treasury will continue to report interagency transfer differences for reconciliation each month until complete reconciliation procedures are developed and implemented.

DFAS should develop an automated database for the DFAS centers to use in tracking the automated difference data and a standard format for the centers to report the differences. A standardized report would allow DFAS managers to determine the priority to be given to reconciling interagency transfer differences. The report would also assist DFAS managers in determining the materiality of the differences at fiscal year's end on the Fund Balance With Treasury asset account reported on the DoD Agency-Wide financial statements.

⁴The DoD Fund Balance With Treasury Working Group was established to manage audits of the Fund Balance With Treasury account in DoD, and includes representatives from the General Accounting Office; the Inspector General, DoD; the Army Audit Agency; the Naval Audit Service; and the Air Force Audit Agency.

⁵We were unable to obtain data on DoD interagency transfer differences prior to FY 1996.

Recommendations and Management Comments

1. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," May 9, 1996, to:

a. Require disbursing stations to review Financial Management Service Form 6652, "Statement of Differences, Disbursing Office Transactions," each month to verify whether corrections reported on Standard Form 1219, the "Statement of Accountability," eliminate interagency transfer differences from the Statement of Differences.

b. Require the Defense Finance and Accounting Service centers to systematically track disbursing station interagency transfer differences reported on the Statement of Differences each month.

Management Comments. The Under Secretary of Defense (Comptroller) concurred, stating that DoD Regulation 7000.14-R, volume 5, will be revised to require disbursing stations to review the Statement of Differences each month to verify whether corrections reported on the Statement of Accountability eliminate interagency transfer differences from the Statement of Differences, and to require the DFAS centers to systematically track disbursing station interagency transfer differences reported on the Statement of Differences each month.

2. We recommend that the Director, Defense Finance and Accounting Service:

a. Develop an automated database for the Defense Finance and Accounting Service centers to use in tracking interagency transfer differences at disbursing stations and a standard format for the centers to report the differences.

b. Direct the Defense Finance and Accounting Service centers to provide quarterly reports for management action to their disbursing stations and to the Defense Finance and Accounting Service headquarters, identifying the amount of interagency transfer differences for each disbursing station.

Management Comments. The Director for Accounting, DFAS, concurred, stating that DFAS will require the DFAS centers to develop systems to track interagency transfer differences; develop a standard format for the centers to report the differences; and require the centers to provide monthly reports of the status and amount of differences to each of their disbursing stations and DFAS headquarters.

3. We recommend that the Director, Defense Finance and Accounting Service Columbus Center, improve training for personnel at disbursing stations 6355 and 6551 in reconciling interagency transfer differences, including the process for reporting corrections on Statements of Accountability and transmitting corrections shown on the Statements of Accountability to the Defense Finance and Accounting Service Indianapolis Center.

Management Comments. The Director for Accounting, DFAS, concurred, stating that the DFAS Columbus Center has instructed personnel at disbursing stations 6355 and 6551 in using the Statement of Accountability to correct differences reported on the Statement of Differences, and that training will be provided when written procedures are completed.

Appendix A. Audit Process

Scope and Methodology

We reviewed custodial records reflecting fiscal accountability for four disbursing stations, which reported net disbursements of \$19.7 billion for FY 1998 and net interagency transfers totaling a negative \$473.2 million for FY 1998. We compared net interagency transfers reported on disbursing station records to net interagency transfers reported on the Statement of Accountability. Specifically, we analyzed the December 1997 and January 1998 Statements of Accountability, which reported net interagency transfers totaling a negative \$53.4 million. We judgmentally selected transactions in records supporting net interagency transfers reported on the Statement of Accountability and traced the transactions to supporting source documents at the disbursing stations.

In addition, we examined the reconciliation of interagency transfers, including daily and monthly reconciliations of interagency transfers in the automated financial system, to interagency transfers reported in the OPAC system. We also reviewed the reconciliation of interagency transfer differences reported monthly on the Statement of Differences. We focused on the monthly Statements of Differences for FY 1998 sent to disbursing stations 6355 and 6551. Disbursing station 8565 had no interagency transfer differences during FY 1998; disbursing station 8558 had an interagency transfer difference during only 2 months. The differences were completely reconciled in the following months.

We reviewed the "Treasury Financial Manual;" DoD Regulation 7000.14-R; DFAS Indianapolis Center Regulation 37-1, "Finance and Accounting Policy Implementation," September 18, 1995; and DFAS Columbus Center procedures to identify the procedures for processing and reporting interagency transfers and for reconciling interagency transfer differences reported on Statements of Differences. In addition, we reviewed disbursing stations' practices and interviewed operating personnel regarding interagency transfers.

Use of Computer-Processed Data. We relied on computer-processed data from the Standard Financial System Redesigned Subsystem 1 to identify interagency transfers recorded by disbursing stations during December 1997 and January 1998. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that interagency transfers reported to the U.S. Treasury on the Statement of Accountability agreed with interagency transfers shown on the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

DoD-wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

Objective: Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following financial management functional area objectives and goals.

- **Objective:** Reengineer DoD business practices. **Goal:** Improve data standardization of finance and accounting data items. (FM-4.4)
- **Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

Audit Type, Dates, and Standards. We performed this financial-related audit from June 1998 through May 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and at the Department of the Treasury, Hyattsville, Maryland. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the four disbursing stations' controls over reconciling interagency transfer differences. Specifically, we reviewed controls over identifying interagency transfer differences and correcting the disbursing stations' automated records; correcting interagency transfer differences on the Statement of Accountability; verifying whether corrections reported on the Statement of Accountability eliminated interagency transfer differences from the Statement of Differences;

and tracking interagency transfer differences reported on the Statement of Differences. Because we did not identify a material weakness, we did not assess the DFAS Columbus Center management's self-evaluation applicable to those controls.

Adequacy of Management Controls. The controls we reviewed at DFAS Columbus Center were adequate in that we identified no material management control weaknesses.

Summary of Prior Coverage

The Inspector General, DoD, and the Army Audit Agency have issued three reports in the last 5 years on interagency transfer differences.

Inspector General, DoD

Report No. 99-211, "Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 9, 1999.

Report No. 98-186, "Statement of Accountability Reconciliation Procedures for Defense Finance and Accounting Service Columbus Center, Disbursing Station 6551," August 14, 1998.

Army Audit Agency

Report No. AA 99-115, "Army's Principal Financial Statements for Fiscal Year 1998, Centralized Disbursing, Defense Finance and Accounting Service Indianapolis Center," January 27, 1999.

Appendix B. Processing and Reporting Interagency Transfers

The OPAC system permits disbursing stations to make interagency transfers on-line through the Government On-Line Accounting Link System. The disbursing station initiates an interagency transfer by entering the billing information directly into the OPAC system. The OPAC system is automatically updated overnight with the interagency transfer information that was entered into the system during the day. Therefore, disbursing stations on the OPAC system can access the database and print interagency transfer data the day after the interagency transfers are entered into the system by other disbursing stations.

Disbursing stations conduct daily comparisons between data on interagency transfers in the OPAC system and the station's automated disbursing system. Based on the comparisons, the stations identify and correct interagency transfers that were omitted from the OPAC system or automated disbursing station records.

Disbursing stations report net interagency transfers on line 2.8, "On-line Payments and Collections," on the monthly Statement of Accountability. Net interagency transfers represent the net value of disbursements and collections processed through the OPAC system.

During FY 1998, the four disbursing stations reported net interagency transfers to the U.S. Treasury totaling a negative \$473.2 million. This amount represents the net value of \$1,828.4 million in disbursements and \$2,301.6 million in collections, as shown in the table below.

FY 1998 Interagency Transfers of Disbursements and Collections at Disbursing Stations 6355, 6551, 8558, and 8565 (millions)			
	<u>Disbursements</u>	<u>Collections</u>	<u>Net Amount</u>
Disbursing Station 6355	\$ 288.8	\$ (52.2)	\$ 236.6
Disbursing Station 6551	1,412.4	(2,082.9)	(670.5)
Disbursing Station 8558	80.1	(96.7)	(16.6)
Disbursing Station 8565	<u>47.1</u>	<u>(69.8)</u>	<u>(22.7)</u>
Total	\$1,828.4	\$(2,301.6)	\$(473.2)

Appendix C. FY 1998 Interagency Transfer Differences for Disbursing Stations 6355 and 6551

Disbursing Station 6355 (thousands)			
Month Difference Occurred	Initial Amount of Difference	Uncorrected Difference at September 30, 1998	Absolute Value of Difference
October 1997	\$ 0.0	\$ 0.0	\$ 0.0
November 1997	0.0	0.0	0.0
December 1997	(699.1)	(699.1)	699.1
January 1998	731.1	699.1	699.1
February 1998	41.2	41.2	41.2
March 1998	388.7	818.6	818.6
April 1998	(458.4)	(458.4)	458.4
May 1998	(451.6)	(451.6)	451.6
June 1998	(13,295.2)	(13,295.2)	13,295.2
July 1998	14,285.7	14,285.7	14,285.7
August 1998	838.3	838.3	838.3
September 1998	<u>4,464.9</u>	<u>4,464.9</u>	<u>4,464.9</u>
Subtotal	\$ 5,845.6	\$ 6,243.5	\$36,052.1

Disbursing Station 6551 (thousands)			
Month Difference Occurred	Initial Amount of Difference	Uncorrected Difference at September 30, 1998	Absolute Value of Difference
October 1997	\$ (443.5)	\$ (874.7)	\$ 874.7
November 1997	867.5	867.5	867.5
December 1997	53.8	100.3	100.3
January 1998	(308.9)	(46.6)	46.6
February 1998	830.2	1,970.3	1,970.3
March 1998	(3,519.2)	(5,019.4)	5,019.4
April 1998	(3,333.5)	(9,523.7)	9,523.7
May 1998	12,648.6	12,771.0	12,771.0
June 1998	(523.8)	(802.7)	802.7
July 1998	(1,791.0)	(1,791.0)	1,791.0
August 1998	1,959.9	1,959.9	1,959.9
September 1998	<u>(20,705.6)</u>	<u>(20,705.6)</u>	<u>20,705.6</u>
Subtotal	\$(14,265.5)	\$ (21,094.7)	\$56,432.7
Total	\$ (8,419.9)	\$(14,851.2)	\$92,484.8

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Columbus Center

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Affairs,
Committee on Government Reform

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

JUN 18 1999



MEMORANDUM FOR DEPUTY DIRECTOR, FINANCE AND ACCOUNTING
DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report, "Interagency Transfer Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations" (Project No. 8FA-2021.01)

This is in response to findings and recommendations in the subject audit. The recommendations to the Under Secretary of Defense (Comptroller) require revisions to Volume 5, "Disbursing Policy and Procedures," of the DoD Financial Management Regulation ("DoDFMR"). The purpose of the recommendations are to ensure disbursing offices reconcile, and timely eliminate, interagency transfer differences monthly reported by the U.S. Treasury on the Statement of Differences. The Department has developed an Implementation Strategy for auditable financial statements, in coordination with the Office of Management and Budget and the General Accounting Office--reconciling the Fund Balance With Treasury account is one of the several goals of the Implementation Strategy.

Currently, an update to Volume 5 is under electronic coordination. The Department agrees with the recommendations and will revise Volume 5 to (1) require disbursing stations to review the Statement of Differences each month to verify whether corrections reported on the Statement of Accountability eliminate interagency transfer differences from the Statement of Differences, and (2) require the Defense Finance and Accounting Service (DFAS) Centers to systematically track disbursing station interagency transfer differences reported on the Statement of Differences each month. The estimated publication date for Volume 5 revisions is August 30, 1999.

My point of contact on this matter is Ms. Sally Matiella. She may be reached by e-mail: matiells@osd.pentagon.mil or by telephone at (703) 697-8281.

William J. Lynn

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

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JUN 18 1999

DFAS-HQ/ASF

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Audit Report on Interagency Transfer Reconciliations at Defense Finance
and Accounting Service Columbus Center Disbursing Stations (Project
No. 8FA-2021.01)

Our response to the subject audit is attached. The primary point of contact (POC) is
Mr. Wayne Ebaugh, (703) 607-2857 or DSN 327-2857, and the secondary POC is Mr. Mike
Bryant, (703) 607-1562 or DSN 327-1562.


Edward A. Harris
Director for Accounting

Attachment:
As stated

cc:
DFAS-HQ/PO
DFAS-CO/EI
DFAS-IN/P
DFAS-KC/PA

**DFAS Comments on Audit Report on Interagency Transfer Reconciliations
at Defense Finance and Accounting Service Columbus Center Disbursing
Stations (Project No. 8FA-2021.01)**

Responses to Recommendations

Recommendation 2. We recommend that the Director, Defense Finance and Accounting Service:

a. Develop an automated database for the Defense Finance and Accounting Service Centers to use in tracking interagency transfer differences at disbursing stations and a standard format for the Centers to report the differences.

DFAS Management Comments: Concur. Several Defense Finance and Accounting Service (DFAS) Centers use a locally created database to track the status of unresolved interagency transfer differences reported on the Statement of Differences. At the DFAS Columbus Center (DFAS-CO), for example, individual transactions that comprise a month's Statement of Differences are manually keyed into its database and tracked until the unresolved differences are cleared. The DFAS Headquarters (DFAS-HQ) will require all DFAS Centers to develop similar systems to track interagency transfer differences and develop a standard format for the DFAS Centers to report the differences.

Estimated Completion Date: December 31, 1999.

b. Direct the Defense Finance and Accounting Service Centers to provide quarterly reports for management action to their disbursing stations and to the Defense Finance and Accounting Service headquarters, identifying the amount of interagency transfer differences for each disbursing station.

DFAS Management Comments: Concur. Several DFAS Centers produce a monthly management report containing the status and amounts of interagency transfer differences reported on the Statement of Differences for all disbursing stations. The DFAS-HQ will task all DFAS Centers to produce similar management reports and forward the reports to each of their disbursing stations and to DFAS-HQ.

Estimated Completion Date: December 31, 1999.

Recommendation 3. We recommend that the Director, Defense Finance and Accounting Service Columbus Center, improve training for personnel at Disbursing Stations 6355 and 6551 in reconciling interagency transfer differences, including the process for reporting corrections on Statements of Accountability and transmitting corrections shown on the Statements of Accountability to the Defense Finance and Accounting Service Indianapolis Center.

DFAS Management Comments: Concur. The DFAS-CO disbursing personnel for Disbursing Stations 6355 and 6551 have been verbally instructed on how to prepare the SF 1219, Statement of Accountability, when it contains prior month adjustments to clear interagency transfer differences reported on the Statement of Differences. The DFAS-CO is currently establishing written procedures for this process. Once written procedures have been completed, appropriate disbursing personnel will be trained. The scheduled completion date for the written procedures and training is August 31, 1999.

Estimated Completion Date: August 31, 1999.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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